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Strategic distinctiveness in family firms: Firm institutional heterogeneity and configurational multidimensionality

Danny Miller[a,*], Mario Daniele Amore[b], Isabelle Le Breton-Miller[a], Alessandro Minichilli[b], Fabio Quarato[b]

[a] HEC Montreal, Canada
[b] Bocconi University, Italy

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ABSTRACT

Institutional theorists argue that strategic distinctiveness is constrained by institutional forces that induce firms to conform. Strategy scholars, for their part, have long advocated the benefits of distinctiveness as sources of competitive advantage. In straddling these positions, we argue that: a) firms vary in their institutional environments and therefore reflect different modes and levels of distinctiveness, and b) strategies are multidimensional, and the need for alignment or "configuration" among these dimensions affects both the degree and functionality of distinctiveness. Firms' heterogeneity, and the variety of institutional forces to which they are exposed, make family firms ideal populations for exploring these issues. We examine public and private family firms, finding that the former are more apt to conform to industry financial norms than private firms. Although such conformity aids public firm performance, consistent with a configurational rationale, the very high and very low levels of distinctiveness, often required to achieve alignment, work best for private firms. We also find that non-family leaders outperform under these extreme and therefore challenging levels of distinctiveness.

1. Introduction

The fields of strategy and institutional theory have evolved in relatively independent ways, the first stressing the importance of unique competitive postures and resources in the quest for strategic distinctiveness and advantage (Helfat et al., 2009; Porter, 1996), the second emphasizing the need to achieve legitimacy – typically via conformity – in the eyes of key stakeholders who supply resources (Durand & Kremp, 2016). Recent work has attempted to bridge these contrasting domains by examining the issue of optimal distinctiveness – the extent to which strategic behavior achieves the right balance or mix between distinctiveness and conformity, thereby attaining the competitive differentiation and legitimacy required to perform well (Deephouse, 1999; Durand, Rao, & Monin, 2007; Miller & Chen, 1996; Navis & Glynn, 2010, 2011; Zhao, Fisher, Lounsbury, & Miller, 2017; Zuckerman, 2016).

We argue that the distinctiveness-conformity literature has oversimplified the debate in two ways. First, it has failed to adequately reflect the different institutional pressures to conform in different types of firms (Zhao et al., 2017). Second, strategic distinctiveness/conformity is not a unidimensional concept. Instead, like strategy itself, its multiple dimensions must be configured to achieve complementary alignment (Ennen & Richter, 2010; Miller, 1996, 2017). Thus, for example, optimal distinctiveness, or its converse, conformity, is not simply a matter of "balance" along specific dimensions (Deephouse, 1999). Instead, the nature and degree of conformity as well as its relationship to performance will be a function of the types of institutional pressures to which to conform, as well as the need to effectively configure the elements of strategy in any conformity initiative.

In this paper, we show that a) the degree of conformity to market pressures varies as a function of the nature of the ownership of the firm, in our case public versus private family firms with different governance structures; and b) the relationship of conformity to performance is a function not only of ownership and governance but of strategic orchestration of multiple dimensions of strategy.

Because of their unorthodox ownership structures combining family control and stock market listing, publicly-traded family firms have been viewed as interesting subjects for furthering this discussion. It has been argued that these firms will tend to offset their unconventional family-intensive governance practices with especially conformist business strategies, particularly those aspects of strategy that are relevant and visible to investors in financial markets (Miller, Le Breton-Miller, & Lester, 2013). In other words, family firms may sacrifice strategic distinctiveness to allay financial market stakeholders' fears regarding their

* Corresponding author.
E-mail address: danny.miller@hec.ca (D. Miller).

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unorthodox governance. We elaborate on these arguments in two ways that draw from the institutional and strategy literatures: devote greater attention to firm heterogeneity and variations in the institutional pressures brought to bear by different stakeholders, and supply a needed focus on configurational multidimensionality and the necessary alignment among of elements of strategy (Miller, 2017; Zhao et al., 2017; Zuckerman, 2016).

1.1. Firm heterogeneity and variations in institutional pressures

Previous work has focused on publicly listed family firms, which are a minority of the breed (Wagner, Block, Miller, Schwens, & Xi, 2015). Private family firms are not subject to the same pressures from financial markets and public shareholders, but are instead much influenced by family priorities and the institution of the family (Amore, Miller, Le Breton-Miller, & Corbetta, 2017; Bertrand & Schoar, 2006; Gómez-Mejia, Cruz, Berrone, & De Castro, 2011; Miller, Le Breton-Miller, Amore, Minichilli, & Corbetta, 2017). Whereas institutional scholars see conformity as useful for firm performance, to better understand the conformity-performance nexus it is important to specify which kinds of conformity entail a response to what kinds of pressures. Clearly, conformity to strategic norms endorsed by investors in financial markets do not play a role where those parties are absent due to privately-held status, and where a different response to different kinds of institutions or stakeholders - business-owning families, for example - is required (Zhao et al., 2017).

1.2. Strategic multidimensionality and configuration

Like strategy itself, strategic distinctiveness/conformity is multidmensional (Zhao et al., 2017), with dimensions that must be configured to achieve complementary alignment (Miller, 2017). Thus norms across a variety of strategic variables likely reflect a functional alignment among those variables (Sirmon & Hitt, 2003; Miller, 1996, 2017; Porter, 1996). That alignment may stem from operational and economic constraints (Ennen & Richter, 2010; Milgrom & Roberts, 1990), mimetic or coercive institutional influences (Durand & Kremp, 2016) or attempts to signal membership in a legitimized category (Cattani, Porac, & Thomas, 2017; Gehman & Grimes, 2017; Zhao, Ishihara, & Lounsbury, 2013). Industry norms are embodied by highly prevalent strategies such as cost leadership or innovation (Miller, 2017). However, firms that choose a different strategy must deviate from multiple such norms to align their strategic dimensions. For example, to be innovators in an industry dominated by cost leaders, they likely must embrace more risk, R&D expenditure, and debt than the cost leaders. In other words firms conform or depart *in a multifacted way* from industy norms to preserve configurational alignment.

To summarize, firm heterogeneity and variation in institutional environments play a role in the degree, nature and consequences of strategic distinctiveness, as do the multidimensionality and interdependencies among elements of strategy (Miller, 2017; Zhao et al., 2017). Each of these considerations contributes both precision and flexibility, but also some constraints, to how firms must reconcile institutional and economic forces in orchestrating distinctiveness. They set the stage for our probing more deeply into the locus, prevalence and performance implications of strategic distinctiveness in family firms. We develop our arguments in the hypotheses section that follows, after which we present our methods, findings, and discussion, respectively, based on a sample of Italian public and private family firms.

2. Conditioning institutional and strategic perspectives on conformity

2.1. Firm heterogeneity and institutional variation

Strategies that are seen as deviant are said to arouse suspicion and alienate stakeholders who provide resources (Deephouse, 1999; Miller & Chen, 1996; Miller, Le Breton-Miller et al., 2013; Zhao et al., 2017). There is an ample literature to support this contention (Davis & Cobb, 2010; Lounsbury, 2007; Hillman, Withers, & Collins, 2009). Thus one important source of legitimacy is conformity (Deephouse, 1999; Miller & Chen, 1996). Firms that conform to industry practices are seen to be more legitimate than those that deviate. This may be because firms adhere in their conduct to a familiar and stakeholder-valued category (Cattani et al., 2017; Gehman & Grimes, 2017; Zhao et al., 2013; Voronov, De Clercq, & Hinings, 2013). One indicator of *strategic* conformity is adherence to industry financial norms (Deephouse 1996, 1999; Miller, Le Breton-Miller et al., 2013). Firms that depart too much from such norms might be viewed by shareholders, bankers, and perhaps even business partners, as being less competent, less trustworthy, "hard to categorize" or too risky (Deephouse, 1999; Miller & Chen, 1996; Zhao et al., 2017).

Building on this perspective, Miller, Le Breton-Miller et al. (2013) find that family firms conform more to industry financial norms in their strategies. They pursue such conformity to offset their non-conformity in family governance. Indeed, family firms may arouse suspicion among shareholders as they tend to be informationally more opaque (Anderson, Duru, & Reeb, 2009) and their family-intensive governance structure departs from conventional norms which may cause investors to suspect their economic rationality. Such irrationality may take the form of family-related values and preferences, such as nepotism, cronyism and entrenchment (Bertrand & Schoar, 2006; ; Morck & Yeung, 2003). To counter investor fears, family firms may conform more assiduously to industry financial norms in their strategic behavior, thereby signalling their adherence to "good business practice" (Miller, Le Breton-Miller et al., 2013).

The above arguments are incomplete. Specifically, they fail to take into account important variations in the institutional environments of different kinds of organizations, in this instance, different kinds of family businesses (Zhao et al., 2017). One criticism is that the arguments pertain to one kind of family business – namely publicly traded family firms, and responses to one kind of stakeholder, namely outside investors. Given the need for different firms to respond to different stakeholders (Geng, Yoshikawa, & Colpan, 2015; Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011; Pontikes, 2012), it is important to take these factors into account. It is unreasonable to believe that the same constraints would apply to *privately-held* family firms, whose conformity initiatives are likely to be responses to different kinds of institutional pressures – perhaps those related to the identities, priorities and logics of stakeholders such as the family, employees, and the community (Amore et al., 2017; Miller, Le Breton-Miller, & Lester, 2011; Miller et al., 2017).

For example, in consideration of family obligations and loyalties, the owners and managers of family firms have been shown to embrace objectives such as hiring and entrenching family members (Mehrotra, Morck, Shim, & Wiwattanakantang, 2013; Miller et al., 2017). Family actors can invoke idiosyncratic family values, for example, by orchestrating risk (positively or negatively, depending on the firm's financial condition) to maintain control of the firm for family members (Chrisman & Patel, 2012; Naldi, Cennamo, Corbetta, & Gómez-Mejia, 2013). Such considerations draw a family firm away from typical industry conduct. In short, whereas listed family firms may conform to norms relevant to public shareholders in financial markets, that is less likely to be true for private family firms for which such markets are less germane and idiosyncratic family-based institutional pressures more salient.

Industry strategic financial norms pertinent to investors may be reflected in manifest operational efficiency dimensions such as capital intensity, capital utilization and inventory management as well as market oriented measures of innovation such as research and development expenditures, unsystematic risk, and financial leverage (Miller, Le Breton-Miller et al., 2013). Each of these categories is visible to

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